

PART III – LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACHMENTS

SECTION J – LIST OF ATTACHMENTS

ATTACHMENT J.1

Annex A **Statement of Work**

Economic Governance: Policy, Regulatory and Legal Climate for Economic Growth

PROGRAM OVERVIEW

USAID's economic governance assistance will support a restructured government in Iraq to implement a sound macroeconomic and structural policy framework that will support the economic restructuring, recovery and governmental transition to a sustainable market-driven economic system. Support will be targeted primarily towards the basic economic governance institutions currently in place. The USAID assistance will facilitate the capacity of the core economic management institutions to implement comprehensive economic reform measure by promoting the development of sustainable economic policy formulation and management capacity by Iraq's government officials and technical specialists and through the full development of Iraqi economic governance institutions.

Sustainable economic reform and recovery in Iraq depends upon the success of economic policy reform and institution-building programs. They will impact both on the immediate economic and social well being of the population, and on the prospects for long-term country buy-in to and participation in the full adoption and implementation of a sound macroeconomic and structural policy framework and administrative implementation system. Progress in core economic governance areas implies considerable support for human resource development. Essentially assistance will need to accelerate dramatically the public administrative capacity for operational and oversight, implying intensive ongoing on-the-job and formal training support. The ultimate goal is to have Iraq's government and private sector capable to assume responsibility for appropriately structured and managed market and non-market institutions to assure prudent and efficient economic governance. The program will be flexibly designed to facilitate maximum responsiveness to the emerging/ continuing executive, legislative, and judicial governance structures in Iraq. In doing so, it will directly support the priority USG objective of promoting a rapid and sustainable reconstruction and recovery effort in Iraq and will improve the living conditions of the population.

1. Fiscal Reform

Fiscal institutions and policy are central to Iraq's ability to establish itself as a legitimate government and to manage fiscal resources. As the Ministry of Finance in Iraq tries to increase non-oil revenues and improve efficiency of expenditures they face a formidable task. Correct and appropriate decisions by Central Banks no longer to finance fiscal deficits force the Ministries of Finance to institute tighter fiscal management policies. At a minimum they must ensure that revenues are in place to finance expenditure requests. In the longer run, they must be

able to forecast revenues and design a tax program that match expenditure needs, and ensure that expenditures are directed to the priority social and public good obligations of the government. They must also be in a position where the central government can address the center- periphery issues and ensure funding and services to those regions that fulfill their revenue obligations to the central government.

Ministry of Finance (MOF) currently operates at levels from elementary to relatively sophisticated. The basic legal framework is normally in place, but Treasury operations are often much less than appropriately sophisticated. Often revenues are collected inappropriately. This problem will plague economic modernization unless the fiscal system is rationalized where revenue collections are modernized and citizens can count on receiving services for their tax contributions. A first step towards fiscal sustainability in Iraq is the reform of the tax policy and tax administration including customs administration, and establishing transparent fiscal systems and fiscal accountability.

The MOF will need to develop capacity in the macro-economic policy analysis, tax policy including customs, trade and natural resource tax issues, tax administration, including customs administration, budget planning, and inter-governmental fiscal relations.

1.) Macro-economic Analysis Unit. The key to successful macro-economic management is to develop the capability to analyze and monitor the economic information on which decision-makers around the world depend. One of the first things required by Ministries of Finance is a macro-economic analysis unit to carry out this function for the ministry. The assistance will establish a macroeconomic analysis unit in the MOF, which will develop macro-economic analysis to support design and management of the economic program. It will estimate revenue and expenditures, and financing requirements. It will analyze the fiscal impacts on monetary and real sectors and vice versa. It will also develop forecasting models designed to facilitate effective fiscal policy-making activities. Analysts will inform policy makers of parameters required to stay within economic targets. A core staff of Iraqi economic analysts will be hired and trained to conduct basic macroeconomic data analysis and modeling activities working with resident and intermittent expatriate expertise. The work of these units will be crucial in facilitating rational discussion and formulation of expenditure and revenue policies within the context of the annual budget process as well as monitoring the economic program.

2) Tax Policy Analysis Unit. The assistance will be utilized to establish a tax policy office in one or more Ministries of Finance and provide experts to work with Iraqi professionals to design a tax policy framework for Iraq in which work is determined to be conducted, a framework that will accommodate the short term need for revenues and more importantly the medium term need for market-oriented tax systems.

In general, as development occurs, it is appropriate to move reliance on tax sources away from trade taxes and to income and consumption taxes, as administrative capacity increases. The usual initial reliance on trade taxation does not provide the strongest incentive for private sector growth while it also increases costs of good to consumers. This standard limitation is an inevitable feature of the tax system until tax inspectorates are set up and operational, so reliance on administration of taxes at the border can be reduced.

Technical assistance will help the MOF undertake the tasks needed to respond to the short-term requirements for changes in the revenue system, such as preparing a decree to change the income tax legislation. It will also help rationalize the tax policy framework in the medium term focusing on both indirect and direct taxes. It will recommend changes needed to make the tax regime more effective. Concerns that could be addressed include revising the income tax, introducing excise taxes on selected goods, converting any business receipts tax into broad based consumption tax, revising fixed taxes, providing an improved fiscal regime for petroleum and mining sectors and for transit pipelines. The experts will help selected MOFs analyze options in the area of tax policy that meet international standards, prepare changes in tax policy and help develop capacity of Iraqi experts to manage tax and customs policy.

3.) Tax Administration. The assistance will help the Iraqi Government and their Ministries of Finance rationalize the design and implementation of efficient tax administration systems. Efficient revenue collection is critical to meeting Iraq expenditure needs. However, existing institutional arrangements on occasion do not support compliance requirements in an open market or transitional economy. Authorities provided to tax administration offices often are lacking at appropriate levels of delegation for such matters as audit and enforcement. In some countries decentralized offices of revenue collection use outdated and manual procedures.

Through the assistance the tax inspectorate will modernize its organization and procedures. A more effective organization will be established including establishment of a large tax payer unit (LTU), model tax offices for medium sized taxpayers, and introduction of new operating concepts such as adoption of taxpayer identification and of functional organizational structure in accordance with best practices. Modern techniques of tax administration will be developed and piloted in selected offices. The assistance will help establish procedures to recruit and staff. It will provide training in core tax administration areas, including registration, audit, collections, returns processing, and taxpayer services.

4.) Budget Planning. The assistance will help the MOF develop systematic and sound budget planning and review procedures, a basic IMF-consistent budget classification system, procedures for review of public investment budget, and preparations for presentation of results to Cabinet or Donor meetings, where these are lacking. In some countries, there is little capacity to work on the development budget. Moreover, there is often little capacity to do budget planning and analysis to maintain the fiscal discipline to which it aspires. USAID assistance would coordinate closely with the Treasury, World Bank and other donor advisors. Work will be needed on such matters as financial management tasks and to help develop comprehensive control procedures ensuring accountability and transparency in financial management. Expertise through this activity will collaborate with other donors such as the World Bank as needed. Budget activity will supplement the efforts of other donors to help establish financial accountability and transparency in Iraq. It will support the work of officials such as Inspector Generals and others, within or outside of the Ministry of Finance, and other appropriate Ministries or Agencies involved in the processes of budget planning and administration.

5) Intergovernmental Fiscal Finance. The assistance will work with the local government officials to analyze the applicability of an intergovernmental finance (IGF) system to Iraq and if appropriate provide assistance to design a system. Iraq is, in principle, an administratively centralized nation of provinces. Generally, experience demonstrates a reluctance of provinces to send tax revenues to the central government.

An IGF could be critical to bringing Iraq together from a fiscal perspective by addressing center periphery issues. An IGF system addresses revenue sources and expenditure obligations across central, provincial and local governments and if effective, promotes a sound allocation of fiscal resources in relation to expenditure need; and promotes effective revenue-raising practices on the part of provincial and local governments. The system would provide revenue sharing across Iraq and the development of systematic grant policies and procedures to be integrated into the budget cycle. A fiscal federal system would give the provinces confidence that money can be sent from the provinces to the center and the provinces, and local governments could still enjoy benefits of taxation from their region.

2. Financial Sector Reform

Iraq remains in the nascent stages of financial sector development. Its Central Bank will operate under assumptions that it will issue and manage domestic currency, has the ability to operate independently and will not finance the government. It will oversee the implementation of the regulatory, organizational and technical infrastructure required for the development of a functioning competitive financial system, and the re-establishment of monetary control, banking laws and regulations, bank supervision and bank licensing. In this regard, the Central Bank with donor support may need to develop a relevant legal framework. This would include laws such as the Central Bank Law (assuring independence), the Banking Law, and the Financial Law that may need to be drafted, discussed, approved, implemented and enforced.

Other laws such as a law on Bank Licensing may be needed. A payments law may also be needed. If necessary, emergency payments systems may be set up to facilitate transactions and other services of the government in countries where there is an absence of a functioning financial system. A temporary system can also facilitate key payments for receiving and channeling foreign assistance. The temporary system will establish correspondent accounts and serve as a channel for collection of budgetary revenues. These functions will eventually be taken over by the commercial banking institutions.

The contractor will support each of the key financial restructuring reform processes enumerated below. The team will work with other multilateral and bilateral donors and with other USAID grantees with expertise in financial sector reform. This will include (but not be limited to) the following priority tasks:

1.) Macro-economic Unit. In Iraq, the assistance will establish or improve a macro-economic analysis unit in the Central Bank, which will develop analytical capability to support design and monitor the exchange rate policy and the monetary program. It will analyze the monetary impacts on the banking system and economic growth and vice versa. It will develop the capacity to estimate money demand and prices, both critical factors in economic management. The unit will collect and analyze statistics critical to development of macro economic program, including statistics such as money supply, emission, international reserves, exchange rate, banking reserves, domestic assets, government overdrafts, inflation, trade. It will advise policy makers on effective approaches for effective monetary and exchange rate policy. Analysts are to inform policy makers on parameters required to stay within economic targets. To supplement

expatriate expert assistance, a core staff of Iraqi economic analysts for selected countries will be hired and trained to conduct basic macroeconomic data analysis and modeling activities. The work of this unit will be crucial in facilitating rational discussion and formulation of monetary and exchange rate policy within the context of the overall economic program.

2) **Reform of Central Bank Operations and the Payment System.** An immediate priority of the Central Bank in selected countries is to reorganize its operations, reducing its staff and rationalizing and modernizing its regional operations. Such Central Banks may need to establish a temporary payment system in order to facilitate control of payments from donor funding. In Iraq, customers receive cash from the Central Bank to make payments in the provinces. Where such rudimentary banking systems exist, there are normally other related problems. The assistance will support development of the payment system, if necessary. Movement towards a system for payments through a branch network should progress towards an automated inter-bank clearing and settlements system.

Where commercial accounts remain in Central Banks, such accounts are to be transferred from the Central Bank to other licensed banking institutions. The assistance will provide support to the planning and implementation of the transfer. However, the operations will depend on having developed confidence in commercial banks to observe fiduciary responsibility with the public's money.

In Iraq, the long term goal is that the assistance will support the full and comprehensive implementation of a non-cash payments system for management of financial transactions and reserve accounts, which facilitates the conduct of secure, time-effective and cost-effective inter-bank financial transactions, and the conduct of financial transactions between the Central Bank and licensed banking institutions, on an electronic basis. The experts will work with the Central Bank (CB) to develop a strategy for achieving the long-term goal and to help implement it

Where necessary, assistance will provide support for comprehensive implementation of improved bank operating procedures in the CB; specifically including customer transaction data entry and management procedures, fiscal agency functions, internal audit, personnel management, and client relations. Support for the comprehensive adoption and implementation of sound (international accounting standards (IAS)) and efficient operating procedures in licensed financial institutions. On the banking operations and payments system side, basic operating procedures related to personnel management, budget and finance, and accounting will have to be developed.

3.) **Commercial Banking System Reform** The money bazaars act as channels for financial intermediation and the *hawala* serves as a conduit for payments. It is appropriate to re-establish regulation of financial intermediation as well as foreign currency transactions. The assistance will support the regulatory and financial review of the financial status of six commercial banks in the banking system in order to determine their future viability for becoming operational and performing core banking services, including providing payment services, foreign exchange operations and on-lending functions for donor credit programs. The financial status of commercial banks is weak. The sector banks do not take deposits and will either rely on donor funding or government credits. The contractor will review the appropriate

approach to the non-performing loan portfolios and will develop a strategy for timely and effective resolution/liquidation of problem institutions. The contractor will review and revise legal/regulatory framework and provide the CB with appropriate authorities in problem bank resolution and liquidation. Also the policies and procedure manuals governing resolution/liquidation of problem/failed banking institutions will be reviewed and revised. The contractors will also provide ongoing training provided to staff in the above areas for understanding legal/regulatory framework to give CB appropriate authorities in problem bank resolution. The contractor will institute core-training programs for Central Bank staff including programs in accreditation, certification and liquidation processes. Contractor will review bank-licensing legislation and ensure that the legislation's treatment of new banks is equally applicable to domestic and foreign banks. The contractor will design incorporation of *hawalas* into the banking system in a manner consistent with transparency, accountability and appropriate governing regulations. Contractor assistance will also support an effective public information and consultative program designed to disseminate information on Iraq's financial systems. It will emphasize the requirements for Central Bank independence and the critical role of the Central Bank for assuring the development of competitive financial systems.

4.) Prudential and Regulatory Reform. The CB will assume prudential oversight of the financial system. To ensure that this happens, the contractor will work with the Central Bank and donors to assess the requirements to establish a sound financial sector regulatory framework. This will involve the creation and staffing of a supervision unit within the Central Bank. Contractor assistance will require the provision of legal and technical support for the full institutionalization of the framework of prudential standards, regulations and implementing instructions designed to establish a sound licensing and prudential oversight system for financial operations and to encourage savings mobilization on the part of local financial institutions.

As the unit develops, the contractor will provide support for the comprehensive design and implementation of sound policies and procedures for licensing, off-site analysis, enforcement of laws and prudential standards, reporting, accounting, and finally on-site examination. Appropriate supervisory standards and procedures should be fully implemented for commercial banking institutions which establish a stringent bank licensing system and tight financial reporting and performance requirements

The contractor will support development and institutionalization of the operations of the banking regulatory unit in the Central Bank, including improvements in the organizational structure, operating procedures, and staffing issues as required. Assistance will include staff training for bank supervision (in cooperation with other donors where appropriate) the legal frameworks of the financial sector, analysis of bank compliance with standards, prudential supervision, reporting requirements, and accounting.

The contractor will provide policy advice to Central Bank managers, and to appropriate Agencies and Ministries, as appropriate, to assure the provision and appropriate regulation of non-bank financial operations that can support the availability of basic financial intermediation services in Iraq (if these cannot be adequately provided by the licensed commercial banks in the banking system).

3. Commercial and Utilities Law Reform

The commercial law framework currently in place was inherited from an old regime. As such, it is woefully deficient in terms of establishing a market-friendly legal and regulatory environment for business formation and operation, is non-transparent, and contravenes the exercise of private property rights. The basic building blocks of a market economy-oriented commercial law framework will need to be developed and institutionalized. This includes the strengthening of property rights-related legislation, corporate and contract law, and the competition law framework. Particular focus will be placed on establishing both a near-term and a longer-term legal strategy for reestablishing property rights to agricultural land and housing units.

It should be clearly understood that the efforts undertaken will be designed to establish the basic legal framework for a functioning market economy; taking appropriate advantage of the unique opportunity for rapid progress in this area presented by the current configuration of political circumstances. In addition key selected practical commercial law-related issues which directly affect the exercise of property ownership and use rights (e.g. agricultural land and housing rights) will be addressed from a practical implementation perspective. Clearly these efforts will create a basic commercial law framework, which in order to be put into effective practice will require significant institution-building efforts on a much longer-term basis.

Commercial law and utilities regulatory and legal reform will also require trade and market access legislation and corollary regulatory reforms designed to open trade flows; and to create a WTO-consistent trade and investment legal framework which will both promote competitive development of domestic business; and lay the groundwork for greater integration into international financial and trading networks. As the country's economy is starting up again, it will be essential to assure an appropriate legal and regulatory framework for major utilities such as gas, oil, water, and power. Iraq once had a solid framework of law.

While commercial law may appear to be a longer-term issue, trade liberalization will yield immediate benefits in the form of improved access to a range of goods. Targeted training will need to be provided to relevant executive and judicial branch officials on appropriate administrative and judicial oversight of the core elements of the commercial law framework.

4. Trade Policy Reform

For thousands of years, the Middle East has been the crossroads of the world. Major trading routes by land and by sea go through the Middle East. The future of Iraq is tied to trade within the Middle East, and to Europe, Asia and the Western Hemisphere. In this regard its trade policy regime of Iraq is important to establishing open competitive borders that allow it to strengthen its traditional role as part of the trade bridge between Asia and Europe. As will be set forth in any future National Development Framework, trade is critical to the economic future of Iraq. Foreign markets will absorb natural resources, goods, and services from Iraq. Foreign markets will supply basic inputs for economic output. Finally open markets will provide access to skills and technology available in other countries. Seen in this context, it is easy to see the importance of open borders in facilitating economic growth in Iraq.

The contractor will provide analysis to the MOF and other relevant agencies (Ministry of Economy or Ministry of Trade, as appropriate) on how to achieve open markets, both internally and externally, and to develop a successful trade promotion strategy. One priority will be to look at the impact of distorted customs procedures, exchange rates, and customs duties on effective rates of protection and how effective protection impacts markets. The experts will recommend a plan to coordinate revision of custom tariffs at the same time distorted customs exchange rates are changed. Assistance will provide policy options to the policy makers with discussion of impacts and implications for the real sector and economic growth.

The contractor will review the economic situation of Iraq and identify potential for development of exports. Based on comparative advantage, possible exports include natural resources, agricultural products such as horticulture, and textiles, to name a few. There are other possibilities to be explored given the developments in international markets in the past 20 years. The World Bank can be expected to conduct surveys of traditional and relevant regional trade patterns including unofficial trade estimates. However, now may be the time to look beyond traditional patterns and explore new market potential with new products such as high valued fruits and vegetables, flowers, seed export and other possibilities.

MODUS OPERANDI, TASKS AND BENCHMARKS FOR ECONOMIC GOVERNANCE

The contractor will design, implement and institutionalize policy and institutional reforms in core macroeconomic and structural reform areas. Reforms are envisioned in fiscal reform, financial sector reform, trade, legal and regulatory, and privatization. The support provided in these areas will be oriented towards institution building and engagement of Iraqis in the economic governance process.

This agenda in turn reflects the range of potential economic policy and institutional reform areas in which support could be required; and the uncertainty regarding the exact contours of the economic and political governance structures that will emerge in Iraq over the medium term. This in turn underscores the importance of continuing to maintain a reasonably high degree of flexibility in the USAID support program.

The tasks and benchmarks outlined below reflect the basic steps needed to rebuild capacity in a modern market oriented society. The delivery dates for the benchmarks specified below are illustrative. The contractor will identify specific tasks and benchmarks through discussions with Iraqi officials and authorized USAID officials. Those tasks and benchmarks will be included in the first work-plan, with USAID approval, completed soon after arrival in Iraq.

The Contractor's team will be assembled within two weeks of contract signature. Under the guidance of USAID, Contractor will develop its implementation plans in collaboration with the U.S. Treasury and Department of State/EB. Coordination with other donors such as the IMF, World Bank, and others will be carried out under the guidance of USAID. After security and other training, if required, and upon approval of USAID, the entire contract team will deploy to Baghdad and will begin immediately to work with counterparts identified by U.S. authorities

there, including for example representatives of the State Oil Marketing Organizations (SOMO). Deployment will not occur until a sufficiently secure environment is available. The Contractor will be responsible for providing communications equipment compatible with USG frequencies, vehicles for staff equipped with GPS transmitters, and full support for in-country staff.

Within 30 days after the contract is signed, the contractor will be responsible for submitting a work plan for program areas described above to include priority and sequencing of tasks and benchmarks. Benchmarks will be evaluated on a best efforts basis, given extreme fluidity of the institutional environment within which advisory and training support will be provided.

The COP will work with the contractor staff and Iraqi country counterparts responsible for each of the program areas to develop the plan with a proposed format for reporting on progress as described in Section VI, reporting requirements.

Within 30 days the contractor will have determined and assessed the equipment needs of the unit the contractor is supporting within the CB and the MoF, and initiated procurement to cover these needs. The contractor will have established an office, and recruited and selected personnel.

Within that context, the following discrete task support areas are envisaged but not limited to the following priority tasks.

STATEMENT OF WORK – (TASKS, SCHEDULE AND BENCHMARKS)

The SOW for Economic Governance is organized as follows.

Fiscal Reform: Development of capacity in the Ministry of Finance (MOF) will improve capacity for economic management. It will also enhance credibility of the government if it can operate with transparency and demonstrate good financial management practices. Individual sections include: Macro-economic Analysis Unit; Tax Policy (Review of customs and trade policies); Tax Administration; Budget Planning (public investment planning capability, public expenditure review); and Inter-governmental Fiscal Reform.

Financial Sector Reform: Reform and restructuring of the banking system will improve the capacity for macro- economic management, improve transparency in operations of the Central Bank and enhance its credibility, and will make it possible for private sector to get access to business and investment capital through financial intermediation. Individual tasks include: Macro-Economic Unit; Reform of Central Bank Operations and Payment System; Legal Framework for Private Commercial Banking System; Commercial Banking Reform/Privatization of Problem Banks; and Reform of Central Bank Prudential and Supervisory Regulatory Framework.

Trade And Private Sector Development. Individual tasks include: Rationalize Trade and Tariff Regime; Assess market opportunities for exports; and Development of private sector capacity to effectively deliver business services and training.

1. FISCAL REFORM

Within the context described above, the contractor will support each of the key fiscal policy and administrative reform processes enumerated above. This will include (but not be limited to) the following priority tasks:

a) Macro-economic Unit

Tasks

Support for the development and institutionalization of the economic data gathering and analysis activities of the Macroeconomic and Fiscal Analysis Unit of the MoF. This includes: the generation of comprehensive monthly and quarterly macroeconomic indicators reports, analysis of government revenue and expenditure figures; implementation of revenue estimation methodologies for all major sources of tax revenue; full development and implementation of a detailed accounting framework-based macroeconomic projection model; the effective coordination of economic survey and data collation and analysis activities with other offices in Ministry of Finance and other relevant governmental agencies; and the conduct of rigorous ongoing macroeconomic analysis and projection analyses which effectively feed into the annual budget planning process and the ongoing budget monitoring process.

Support for the development and presentation of a rigorous macroeconomic analysis (and analytical process). That report should include:

- fiscal policy outlook paper to form the basis for preparation of the annual budget.
- assessment, implications and consequences for financing of the budget based on consolidated fiscal accounts, and
- implications for state owned enterprises (SOEs) and for structural reform.
- analysis of fiscal linkages and implications for the monetary sector and real sector.

Benchmarks

A rigorous macroeconomic analysis and fiscal policy outlook paper has been developed and presented to form the basis for preparation of the reworking of the budget for the current year (August 2003) and preparation of the budget for the coming fiscal year. (November – December 2003).

The Macroeconomic and Fiscal Analysis Unit of the MoF coordinates the economic survey and data collation and analysis activities with other relevant governmental agencies; in a manner which allows accurate monthly and quarterly reporting on inflation, unemployment, and aggregate and sectoral production and trade figures and trends. (Begin reporting on a near-current basis quarterly starting October 2003)

The Macroeconomic and Fiscal Analysis Unit of the MoF generates comprehensive monthly and quarterly macroeconomic indicators reports and government revenue and expenditure figures. (March 2006)

The Macroeconomic and Fiscal Analysis Unit of the MoF fully implements detailed revenue estimation models for the current and future major sources of tax revenue (August 2003 – March 2006)

The Macroeconomic and Fiscal Analysis Unit of the MoF develops and fully operationalizes a detailed accounting framework-based macroeconomic projection model; and conducts rigorous ongoing macroeconomic analysis and projection analyses which facilitate improved GDP and national income estimates and which effectively feed into the budget planning process and the ongoing budget monitoring process for the current and coming budget years (August 2003-March 2006).

Demonstrate progress on development and institutionalization of the economic data gathering and analysis activities of the Macroeconomic and Fiscal Analysis Unit of the MoF. This includes: the generation of comprehensive monthly and quarterly macroeconomic indicators reports, analysis of government revenue and expenditure figures; full implementation of revenue estimation methodologies for all major sources of tax revenue; full development and implementation of a detailed accounting framework-based macroeconomic projection model; the effective coordination of economic survey and data collation and analysis activities with other offices in Ministry of Finance and other relevant governmental agencies; and the conduct of rigorous ongoing macroeconomic analysis and projection analyses which effectively feed into the annual budget planning process and the ongoing budget monitoring process. (Quarterly reporting and forecasts starting in October 2003)

Rigorous macro-economic analysis and implications for financing of the budget based on consolidated fiscal accounts have been developed and presented. (December 2003).

Develop and present analysis of implications of macro-economic analysis of state owned enterprises (SOEs) for structural reform. (December 2003).

Develop and present paper on macroeconomic analysis and fiscal linkages to monetary sector and real sector with implications for fiscal policy framework.. (February 2004)

b) Revenue Policy Including Tax Policy

Tasks

Establishment of data on the revenue system including the tax system as it currently exists and has been administered recently, and, to the extent feasible, over the past 15 years or so to the extent possible to serve as baseline. Estimation of the principal sources of revenues, including tax revenues.

Identify priorities for revenue and tax reform that respond to short term and medium term fiscal problems.

Assist preparation of an appropriate mix of sustainable revenue sources, including such possibilities as natural resource taxation, income taxation, and consumption taxation. After selection of appropriate mix, design strategy for implementation, including design of relevant regulations..

Design, and introduce excise taxes on selected products.

Design fiscal regime for petroleum, mining and transit pipelines. Prepare legislation, implementing regulations and strategy for implementation.

Assess need for property tax at provincial and local levels and make recommendations, including implementation regulations and strategy for implementation.

Assess appropriateness of VAT for Iraq and recommendations for design and implementation if appropriate.

Benchmarks

Identify priorities for the revenue and tax policy regime to facilitate policy to meet short-term revenue needs and to develop a revenue and tax system that meets medium term needs of an efficient market-oriented economy. Provide design of a comprehensive income tax system consistent with current international practice, including the strategy for implementation and necessary regulations (March 2004-September 2004)

Analysis of administratively and politically feasible changes in tax policy and their foreseeable net revenue and incentive effects. IMF analysis and recommendations will be taken as a point of departure/basis for the unit's work (March 2004)

Support design and implementation of excise taxes. (December 2003 – June 2004).

Provide support for the design, introduction and implementation of providing an international best practices-consistent consumption tax. .(June 2004 – December 2004)

Provide support for design for fiscal regime for petroleum, mining and transit pipelines. Prepare legislation, implementing regulations and strategy for implementation. (By September 2004)

Provide support to institutionalize revenue and tax policies including passage of an overarching regulation and implementing procedures. (October 2004 – March 2005)

Assess appropriateness of design of property tax system at the provincial and municipal/district level. (June 2004-December 2005.) .

If property tax regime fits tax policy strategy, provide support for regulation and implementing instructions and procedures, and appropriate staffing and training of tax administration personnel) of an international best practices- as adapted to the circumstances of Iraq (March 2004 -March 2005)

Assess appropriateness of any consumption tax regulatory regime and system. (September 2004-December 2004).

If the consumption tax regime fits tax policy strategy, provide support for design, regulation and implementing instructions and procedures, and appropriate staffing and training of tax administration personnel) of an international best practices- as adapted to Iraqi circumstances. (March 2005-September 2005)

c. Tax Administration

Tasks

Review and assess the organizational structure of the tax administration from a regional and a functional perspective (collections, audits, arrears, processing, etc.). Make recommendations for efficient improved operation.

Develop and institutionalize modern techniques of tax administration.

Design organizational incentives to improve collections such as large taxpayer unit or medium sized business unit.

Design pilot programs to modernize tax system and introduce new operating concepts such as the taxpayer identification number.

Provide support for the design, implementation and institutionalization of core operating procedures in key tax administration functional areas (including registration, audit, collections, returns processing, and taxpayer education) for the major taxes. Provide support for the development and issuance of all related public and internal use forms and management information reports.

Support the design and implementation of a computerized audit selection methodology based on risk analysis for each major source of tax revenue.

Support the design and implementation of an automated tax information computerization system at the provincial and municipal/district levels covering relevant taxes. This system should be designed and established to operate in an integrated manner as appropriate with the computerized database for customs revenues

Support the development and implementation of a database from samples of tax returns and management information reports related to major sources of tax revenue; including audits performed, average collection from audits, arrears statistics, and tax, fines and penalties collected.

Support the design, compilation and distribution of monthly reports that contain performance indicators other than tax revenue for all major sources of tax revenue. These should indicate activity levels for key tax administration functions including collection and audit

Support the implementation and institutionalization of an overall training (and employee development) strategy and training development and delivery program; including a comprehensive "training of trainers" program covering all major functional areas of tax administration.

Support the full implementation and institutionalization of a policy for exchanging tax data and other financial information with countries and for full implementation of a negotiation strategy and system for bilateral tax information exchanges and tax treatment arrangements with key trading partners.

Support a comprehensive public information and consultative program designed to disseminate information on the new tax policy and administration system to selected Iraqi public officials, business groups, and the wider public. Strengthen the consultative process and build public understanding of and support for the principles behind and ultimate objectives of tax policy and administrative reform in Iraq.

Benchmarks

Present recommendations on assessment of organizational structure of tax inspectorates. (October 2003)

Based on recommendations and decisions taken by government of Iraq identify priorities for institutionalizing modern techniques of tax administration and timetable to do so. (November 2003)

Present recommendations as to appropriate organizational incentives, including a work plan and a time table for implementation. (November 2003)

Present recommendations on appropriate new operating concepts for Iraq such as the taxpayer identification number and a work plan and time table to introduce them. (November 2003)

Compile the specification of basic application software necessary to carry out all core tax administration functions customized for each new tax adopted and for all existing taxes. (November 2003 – February 2005)

Procurement, delivery and installation are finished by June 2004 and adapted for major taxes by October 2004).

A comprehensive public information and consultative program designed to disseminate information on the new tax policy and administration system to Iraq public officials, business groups, and the wider public; to strengthen the consultative process between the Iraqi government and country stakeholders; and to build public understanding and support for the principles behind and ultimate objectives of tax policy and administrative reform in Iraq is effectively implemented. (October 2003 – November 2003).

Prepare plan and time table for design and institutionalization of core operating procedures in key tax administration functional areas (including registration, audit, collections, returns processing, and taxpayer education) for the major taxes, and support for the development and issuance of all related public and internal use forms and management information reports. (October 2003 – March 2005)

All appropriate tax administration staff at the provincial and regional/local level (a minimum of three-quarters of tax administration staff at the provincial, regional, and local level) receive training in all core tax administration functions and in management of the tax information computerization system for all major taxes. (October 2003 – May 2004 2004)

Develop and implement plan for appropriate staffing and training support. (December 2003 – May 2004 2004)

Prepare tax regulation for shifting of business receipts tax to consumption tax (January 2004 – June 2004)

Implement an automated tax information computerization system for property taxation on a pilot basis in a minimum of six municipalities; through integration with donor programs to refine and facilitate effective use of existing fiscal cadastre information. (March 2004– September 2004)

Implement an automated tax information computerization system which covers the VAT and excise taxes in integrated manner with the computerized data base for customs revenues, at the provincial and regional levels. March 2004-September 2004)

Develop and implement an overarching regulation and implementing instructions and procedures (March 2004–October 2004) for major taxes.

Design tax information computerization plan based on a unique taxpayer identifying number and develop taxpayer master file. (March 2004–June 2004)

The exchange of tax data and other financial information with other major trading partners is regularized and intensified; and formal agreements on information exchanges and bilateral taxation arrangements executed with at least five major trading partners. (March 2004 – June 2004)

A "training of trainers" program for Iraq's tax administration officials to allow staff to carry out future training programs is refined and updated with training modules covering all core tax administration functions created for all major, with a minimum of ten training modules presented. (December 2003–June 2004).

Support for is provided for the full and comprehensive design and implementation of a computerized audit selection methodology based on risk analysis for each of the major sources of tax revenue (June 2004–December 2004);

Develop and implement of a database from samples of tax returns and management information reports which is used to provide monthly reporting information related to the performance of major sources of tax revenue; including audits performed, average collection from audits, arrears statistics, and tax, fines and penalties collected. (Database finished by June 2004 – implemented and use made of reports by December 2004)

Using models developed in the meantime by the Macroeconomic and Fiscal Analysis in the Department of the relevant Ministry of Finance, projections are made and revenue targets are made for the budget year beginning in 2004 and full blown tax program is implemented for the first time in budget year 2005).

d) Budget Planning/Administration and Financial Management Information System
Budget Tasks

Support for the full and comprehensive implementation of an IMF-consistent budget that provides budgetary information by organizational structure, functional classification, economic classification and source of financing at the line agency and municipal levels.

Support for the development of an integrated annual budget that covers the general government sector, provinces, municipalities/districts and the public enterprise sector.

Support for the full institutionalization of sound budget planning and reporting procedures in a manner which effectively incorporates program impact and cost-efficiency analysis into the

budget review and determination process and subsequently reviews in detail progress towards those goals for major expenditure programs..

Support for the full institutionalization of an active internal audit section within the MOF and the implementation of selective audits on line departments; as well as regional governments and public enterprises receiving funds from the Consolidated Budget of Iraq.

Set up and support the institutionalization of the operation of the MOF public enterprise monitoring unit; including (1) maintenance of detailed financial information on the financial performance of the major public enterprise units, (2) effective tracking of resource flows between the MOF and the public enterprise sector, and (3) provision of periodic recommendations on financial management reform priorities and progress in major public enterprise units

Support the full integration of the capital and recurrent budgeting processes through the operation of the MOF joint budget planning unit and the institutionalization of a unified annual budget planning process for recurrent and capital expenditures.

Support the design and institutionalization of the rolling planning process for the public infrastructure program: including (1) the effective provision of guidance to line agencies and municipalities in the construction and articulation of their public investment plans, (2) the development of more rigorous program and project analysis methodologies and processes in key public investment sectors, and (3) improved project identification and monitoring processes at the regional and municipal levels.

Development and implementation of a fully automated budget planning, reporting, and tracking system at the central, provincial and municipal/district levels.

Support for the development and implementation of specialized training programs covering all aspects of the budget planning and execution and procurement processes; including the full institutionalization of "training of trainers" programs in these areas that permit staff of the Iraqi Government to carry out these training activities in an autonomous manner. The training materials for these programs shall be prepared and refined in Arabic and English languages; and will be provided at the line agency and regional government level.

Support for implementation of specialized training programs that will be conducted for relevant administrative staff of regional government institutions and relevant administrative staff of the future Cabinet of Ministers and Province-wide Legislative Assembly to promote input from the Iraqi people into and capacity to develop and monitor capital and recurrent budget planning activities.

FMIS Tasks

Support the introduction of comprehensive treasury and financial management systems and processes consistent with international best practices. These functions include budget execution, expenditure control, government payments, accounting, financial reporting, cash management, debt management, internal and external audit, and procurement.

Support the reorganization of financial operations to establish an effective treasury organization and a single treasury account.

Perform functional and technical requirements analysis to document the requirements for both the hardware, software and communications components of an automated Financial Management Information System (FMIS).

Identify any hardware and/or communications infrastructure, or upgrades to existing infrastructure that will be required to fully utilize the new FMIS. Procure, install and integrate the new infrastructure components.

Evaluate FMIS software package options and acquire, configure, customize and implement the most appropriate FMIS package.

Recommend changes in treasury and financial management processes to increase efficiency, ensure accountability and transparency, and fully utilize the enhanced functionality of the new FMIS.

Identify and document any potential requirements for automated interfaces between the new FMIS and existing or planned systems such as budget formulation, fixed assets management, or payroll systems, etc.

Develop and assist in implementing a training program on reformed financial management processes and use of the new FMIS.

Develop and assist in implementing a training program on administration and technical operation of the new FMIS software, hardware and any associated networking components.

Support the development of a government-wide framework of standards and processes for internal audit/control in line ministries.

Support the implementation of an effective and efficient debt management capability in the Ministry of Finance.

Support the development of a comprehensive cash flow forecasting capability and assist in implementing more efficient cash management processes.

Support the development and implementation of a plan for establishing and monitoring procurement processes consistent with international best practices.

Benchmarks

Establish the MOF Public Enterprise Monitoring Unit and effectively maintain detailed financial information on the financial performance of the major public enterprise units. Effectively track resource flows between the MOF and the public enterprise sector in relation to the utilization of FY 2003 fiscal transfers and the preparation of the FY 2004 budget. (November 2003 – June 2004)

The MOF Public Enterprise Monitoring Unit provides detailed recommendations on financial management reform priorities and progress in a minimum of one major public enterprise in the form of providing adjustments to the CY 2003 budget and three major public enterprise units in relation to preparation of the FY 2004 budget. (September 2003 – June 2004).

Provides detailed recommendations on financial management reform priorities and progress in at least three major public enterprise units in relation to preparation of the FY 2005 budget. - (September 2003 – December 2004). For the FY 2006 budget, detailed recommendations on financial management reform priorities and progress in at least two additional major public enterprises shall be prepared.

Development of a rough but integrated budget package for Fiscal Year 2004 that covers the general government sector, regional and local government and the public enterprise sector. (September 2003- December 2003))

Development of a rough but integrated FY 2004 budget that covers the general government sector, provinces, municipalities/districts and the public enterprise sector. (September 2003 - December 2003))

Develop for adoption sound budget planning and reporting procedures for preparation of the FY 2005 budget under a budget cycle in a manner that effectively incorporates program impact and cost-efficiency analysis into the budget review and determination process and subsequently reviews in detail progress towards those goals for a minimum of 10 major expenditure programs. (September 2003 – December 2004).

Implementation of an IMF-consistent budget system, that provides budgetary information by organizational structure, functional classification, economic classification and source of financing at the line agency and municipal levels. (September 2003 - December 2003). Full and comprehensive implementation by December 2004.

Specialized training programs covering the budget planning and execution process are to be conducted for relevant administrative staff of the future Cabinet of Ministers and Provincial authorities in order to promote Iraqi input into and capacity to develop and monitor capital and recurrent budget planning activities. A minimum of two formal training modules and required follow-up on-the-job training with relevant Cabinet of Ministers, Provincial authorities and staff will be provided. (September 2003– December 2003) . An additional six formal training modules completed by June 2004.

A comprehensive public information and consultative program will be implemented. The program is to be designed to disseminate information on the new budget planning and administration system to Iraqi public administrators and senior officials, high profile beneficiary groups, and the wider public, to serve the purposes of a consultative process and to build public understanding of the principles behind and ultimate objectives of budget policy and administrative reform in Iraq. (September 2003-December 2005)

The internal audit section is to be trained to implement selective audits on a minimum of four line department, provincial government, municipal and district governments and/or public enterprise units receiving funds during FY 2003. The training is to improve capacity so that the unit can make systematic recommendations for improvement of financial planning and management as a result of these audit activities. If the unit is not fully ready, the priority is to assure that key audits and recommendations are carried out (September 2003 – March 2004).

Detailed guidance is to be provided to line agencies and municipalities in the construction and articulation of their public investment plans for preparation of the FY 2004 budget. (September 2003 –December 2003).

Refined project identification and monitoring processes introduced for the FY 2005 budget cycle at the provincial and local levels. (October 2003 -June 2004)

The MOF internal audit section implements selective audits on a minimum of ten line department, municipal government and/or public enterprise units receiving funds during CY 2003, and makes systematic recommendations for improvement of financial planning and management as a result of these audit activities (March 2004 – September 2004).

Detailed and rigorous program and project analysis methodologies and processes introduced in a minimum of three major public investment sub-sectors (March 2004– June 2004).

A fully automated budget planning, reporting, and tracking system (including the installation and application of appropriate budget planning and execution software) is implemented in at least 50% of line agencies and one-third of all provinces and localities (municipalities and districts). (March 2004–July 2004). It is implemented in all line agencies and an additional one-third of all provinces and localities (municipalities. and districts) (June 2004-December 2004). It is implemented in all remaining provinces and municipalities. (January 2005-July 2005).

A "training of trainers" programs in the budget planning and execution and procurement areas will be implemented, and a minimum of six modules provided in each subject area. The training materials for these programs shall be prepared and refined in Arabic and English languages. (March 2004 – October 2004).

Specialized training programs (including manuals and related instructional materials) covering in detail all aspects of the budget planning and execution and procurement processes are refined and carried out on at least a monthly basis. A minimum of three-quarters of all line agency and provincial staff involved in budget planning, execution, and procurement processes will be provided training. The training materials for these programs shall be prepared and refined in Arabic and English languages. (March 2004 – December 2004).

Detailed and rigorous program and project analysis methodologies and processes introduced in a minimum of five additional major public investment sub-sectors (December 2004).

e) Intergovernmental Fiscal Relations

Tasks

Comprehensive assessment of how a comprehensive intergovernmental finance system that appropriately defines the financial relationship between the central government and municipalities would fit in Iraq. This will include development and implementation of an expenditure and revenue assignment system and grant allocation system which promote (1) effective provision of key public services, (2) strong local revenue raising incentives, and (3) vertical and horizontal equity in the allocation of fiscal transfers. It will include support for the full implementation of appropriate budget planning, recording and reporting requirements for provincial and local governments as appropriate.

Develop formula for revenue sharing and grants allocation based on revenue capacity.

Develop tools to analyze revenue capacity in provinces and at local levels of government.

Develop presentation to explain to officials importance of revenue capacity formula for fiscal management and implications for respective budgets.

Develop approach to collect fiscal information needed to analyze and utilize fiscal information at provincial and local levels of government.

Benchmarks

Present basic report on recommendations on inter-governmental fiscal relations to officials with timetable for implementation. (March 2004)

Present recommendations for how to implement the system in Iraq and present implications for revenue collection, service delivery and budget management. (March 2004 – June 2004)

Demonstrate how formula for revenue sharing and grants can influence budget distribution. (March 2004)

Present the approaches to analyzing revenue capacity, a key concept in the criteria for revenue sharing and distribution of grants, and propose alternative ways to define revenue capacity with implications for fiscal situation. (June 2004)

Compile and provide quarterly reports on fiscal information by province and local government unit feasible (March 2004 – February 2006)

Compile fiscal information for provinces and local governments where feasible and develop data base to show fiscal surpluses and deficits, and needs for revenue sharing and grants. (June 2004)

Assess what is needed to support for the full implementation of appropriate budget planning, recording and reporting requirements for provincial and local governments. (municipalities/urban and districts/rural) (September 2004)

Training and Public Information

With respect to the macroeconomic reforms, it is critical to provide appropriate training and public information. The adoption and effective implementation of sustainable reforms in the areas enumerated above will require large-scale training efforts; as well as public information support designed build understanding of and support for key economic reforms during a period of social and political volatility. The support program will undertake targeted training efforts designed to facilitate the development of nascent economic policy-making and administrative oversight capability in the areas of fiscal policy and administration, financial sector restructuring, commercial law reform, and privatization. In addition, public information support will be provided to encourage understanding of the public at large, and of key political constituencies, of the importance of reform progress in these areas.

As a result the contractor will be expected to provide both formal and on-the job training in the core economic reform areas in which technical assistance will be provided; including but not limited to the following: efficiency and equity implications of alternative tax policy regimes for business; property law principles and practices; competition law principles and practices; trade law principles and practices; accounting; financial and cost accounting principles and practices; and, extra-judicial dispute resolution. A minimum of three formal training courses, of at least 3-

5 days duration, will be held in each of the above-mentioned areas for appropriate executive, legislative and judicial branch personnel as well as NGOs and journalists.

In addition, the contractor will provide corollary public information support designed to promote understanding and support of the competition program and related economic reform processes. This will include a combination of newsprint, pamphlet, and radio informational reports detailing the major fiscal, financial sector, commercial law, and privatization-related reforms being implemented as well as their prospective impact on the economic and social development of Iraq. In addition, the public information component of the project will also support the preparation of formal materials and the logistical requirements for the formal training activities specified above.

2. FINANCIAL SECTOR

a) Currency Exchange Tasks

If directed by USAID, Contractor is to prepare a currency, and organize and carry out an extremely rapid and thorough exchange of currencies, eliminating the current currency and substituting a replacement currency designed and prepared and produced in large quantities to a very high standard of excellence. The currency exchange is to be carried out effectively and simultaneously throughout Iraq. Old currency units are to be collected and destroyed.

b) Macro-Economic Unit

Tasks

Support a macro-economic unit to collect and analyze statistics critical to development of macro economic program, including statistics such as money supply, emission, international reserves, banking reserves, domestic assets, trade.

Support capacity to estimate money demand and prices as a part of the economic program

Support development and presentation of macroeconomic analysis and implications of money supply for economic growth.

Support development and presentation of macroeconomic analysis and impact of banking system and credit needs on economic growth.

Support development and presentation of macroeconomic analysis and impact of exchange rate management on real sector growth, export potential and economic growth.

Support development and presentation of financial programming and development of economic program.

Benchmarks

Prepare and present plan including draft currency design and estimates of currency in circulation and the rules for the exchange for an effectively simultaneous currency exchange. Plan should assure that there are sufficient places planned for currency exchange to assure a high probability of successful exchange for the vast majority of Iraqi citizens. (October 2003)

Build appropriate relationships with relevant NGO and other organizations to support efforts to carry out currency exchange. (October 2003-January 2004)

Select and publicize a massive campaign to help assure all citizens of conditions and characteristics of new currency, and how and where exchange will take place. This will include a combination of fora, and newsprint, pamphlet, and radio informational reports detailing the content of and purpose behind the core financial sector reforms being implemented in Iraq. (October 2003-January 2004)

Hire the personnel and make available the equipment necessary to meet and overcome relevant issues regarding a successful currency exchange (October 2003-January 2004)

Provide under sufficient security sufficient quantities of the proposed new currency to assure a high quality currency exchange operation. Carry out the currency exchange. (January –March 2004).

Prepare a detailed accountability statement of the sources and uses of the new currency as part of the overall report to be prepared on the operation, including lessons learned. (May –June 2004).

Present quarterly series on statistics supportive of analysis of macro economic program such as such as money supply, emission, international reserves, banking reserves, domestic assets, and trade. (January 2004 and quarterly thereafter.)

Prepare rigorous macroeconomic analysis of implications of money supply for economic growth, with special emphasis on the issues that arise when multiple currencies are in circulation. (December 2003)

Present analysis of estimates of money demand and prices as a part of the economic program. (December 2003)

Prepare macroeconomic analysis on impact of banking system and credit needs on economic growth. (March 2004)

Prepare macroeconomic analysis and impact of exchange rate management on real sector growth, export potential and economic growth. (December 2003/January 2004 and thereafter)

Prepare analysis and make presentation of financial programming and implications for the economic program. (March 2004 and thereafter)

c) Central Bank (CB) Operations

Tasks

Assess regional and functional structure of the Central Bank and make recommendations to rationalize its operations.

Assist Central Bank establish/improve domestic payment system.

Assist Central Bank establish/improve regional and international operations through standard banking telecommunications networks.

Support development and institutionalization of more efficient operating procedures within the payments system division of the Central Bank

Benchmarks

Develop and implement core operating procedures within the payments system division of the CB, which facilitate efficient conduct of CB client transactions in a cost-effective and time-effective manner. (September 2003 – March 2004)

Help develop and operate the cash-based payments system for payment of wages and salaries and social assistance payments will operate in a well-organized and time-effective manner. (September-December 2003)

Design an effective public information and consultative program disseminate information on the changing structure of the Iraqi financial system and on the requirements and effective role of the CB in promoting the development of a competitive Iraqi financial system will be carried out. . This will include a combination of fora, and newsprint, pamphlet, and radio informational reports detailing the content of and purpose behind the core financial sector reforms being implemented in Iraq. (November 2003 – March 2005)

Develop and implement core bank operating procedures in the CB; specifically including customer transaction's data entry and management procedures, fiscal agency functions, internal audit, personnel management, and client relations. (December 2003- March 2004)

Design and conduct comprehensive training programs (including training of Iraqi nationals as trainers) for payments system personnel in the CB, including separate components on (1) payments procedures related to customer accounts, and (2) payments procedures related to the Interbank payments monitoring and control system; (3) audit in internal controls, and liquidity and funds , with a minimum of 10 training modules provided (available in Arabic and English). (December 2003 – June 2005)

Assist the design and establish functioning basic non-cash payments system for management of financial transactions and reserve accounts, which effectively facilitates (1) the conduct of secure and relatively time-effective payment order-type transactions through the banking system, and (2) the conduct of financial transactions between the CB and licensed banking institutions on an electronic basis. (December 2003- June 2004)

Develop, establish and make operational efficient operating procedures in the payments system division of the CB, including full and comprehensive elaboration of organizational structure and position descriptions, and the development of rigorous internal operating procedures covering personnel planning and management, budget and finance, and accounting. (December 2003 – July 2004)

Develop and establish a detailed and comprehensive “training of trainers” program for payments system personnel in the CB (March 2004- September 2004)

Prepare and finalize reconciliation’s of all depository and collection (including tax and customs) accounts for the CB and its major customers for current year (February 2004) and for the upcoming fiscal year (April 2005)

Facilitate organizational and financial arrangements for a private security service to transfer of public funds from foreign sites into Iraq and among CB branches within that country. (October 2003)

d) Commercial Bank Reform

Tasks

Perform financial viability assessment of 6 commercial banks to determine their future capacity for becoming commercial banks, for providing payment services, and for facilitating financial intermediation.

Help develop criteria for bank privatization, bank liquidation and resolution and bank restructuring.

Help set up procedures to eliminate non-performing loans from banks’ books and help design market approach(s) for addressing bad loan portfolios in the banking system.

Help develop criteria for new entry into the commercial banking system.

Provide strategic advice on the provision and appropriate regulation of supplementary financial operations which ensure adequate availability of basic banking services in Iraq if these cannot be adequately provided by the licensed commercial banks in the banking system of that country.

Design Central Bank problem bank resolution process and advisors will assist the CB to implement the policies and guidelines adopted by the CB to work with management of troubled banks.

Advisors will assist the CB in developing bank privatization techniques to minimize the impact of problem banks on the system (e.g., merger; change of ownership; new capitalization; resolution of problem assets; as well as liquidation.) Training will be provided to appropriate personnel to strengthen the understanding of each method and to assist in determining the optimal technique for each circumstance.

The advisors will work with the staff, management and expatriate advisors as directed by the Governor of the CB and with the approval of USAID.

Assist the incorporation of the *hawala* system into the formal banking system as appropriate.

Benchmarks

Perform detailed regulatory and financial diagnostics of a minimum of 3 commercial banking institutions in order to determine their future viability for becoming operational and performing core banking services, including providing payment services and on-lending functions for donor credit programs. (September 2003-October 2003)

Provide recommendations on status of commercial banks. (October 2003.)

Provide criteria for addressing future of 3 commercial banks and 3 sector banks. (December 2003)

Make recommendations on criteria for new entry in commercial banking system. (March 2004)

Assess whether to review loan portfolios of 3 commercial banks. (December 2003- June 2004.)

Make recommendation on approach to clean-up bank losses. (March 2004)

Assist CB implement policies and guidelines adopted to work with management of troubled banks. (March 2004-September 2004).

Assist CB develop approaches to privatization. (March 2004- June 2004)

Work with bank, CB staff and privatization assistance to implement reform of commercial banking sector (June 2003 – December 2005)

e. Bank Regulation

e-1) Evaluation and Assessment

Tasks

Taking any available prior work fully into account, the advisor(s) will carry out an assessment of bank supervision in Iraq, using the 25 Basle Core Principles of Bank Supervision as the base for

analysis. Area evaluated will include the legal/regulatory framework, supervisory authority, regulatory reports, off-site analysis, licensing policies and procedures institutional capacity of the CB on-site examination policies, procedures and staff capabilities. This assessment will help determine the status of bank supervision in Iraq

The contractor will assess institutional capacity for supervision and provide recommendations, an action plan and timetable to implement.

The contractor will assist implement institutional changes as agreed upon by the government of Iraq and USAID.

The contractor will assess training needs, provide recommendations, an action plan and timetable for implementation.

Advisors will assist in the formulation and implementation of an overall mission statement and strategic plan for bank supervision. The mission statement and strategic plan will outline the role, and overall goals and objectives of bank supervision.

The contractor will assess how to develop public relations strategy to inform public as reform progress and help design strategy as requested.

Benchmarks

Present findings of assessment with recommendations for making improvements. These findings will be used to determine future progress. (October 2003)

The advisors will presents results and a timetable for reform of assessment of institutional capacity. (December 2003)

The advisors will present results of their training needs assessment to be used as the basis for the formulation of a classroom based training supervision accreditation program. (December 2003)

Advisors will present their recommendations for the mission statement and strategic plan for bank supervision including the role, and overall goals and objectives of bank supervision. (November 2003)

As requested by the CB and approved by USAID, the advisors will assist the CB in other banking sector issues, including but not limited to, studies and evaluation of the costs and benefits of deposit insurance and of the range of payments activities being carried out above. Five evaluation studies will be carried out. (on going)

Assist implementation of a comprehensive plan for outreach. (November 2003-November 2004)

e-2) Legal/Regulatory Framework/Enforcement

Tasks

Based upon their review of current banking laws and regulations (particularly prudential regulations, enforcement authorities, and licensing), the advisors will make recommendations and help draft, where necessary, legislation and regulations to provide a better framework for bank supervision and to provide the CB staff with the appropriate legal and punitive authority to carry out their supervisory mandate. The advisors will work closely with the IMF and other donors on this focus.

The advisors will assist in the public outreach aspect of supervision by helping to design appropriate materials to introduce new regulations and policies to the financial and accounting community. The forum for distributing these materials may be by conducting meetings, seminars or training. Advisors will assist other TA programs dealing with financial sector issues such as collateral, mortgage, bankruptcy, and relevant judicial processes. (on-going).

Benchmarks

Develop and prioritize the legal framework of regulations and implementing instructions required to establish a sound licensing and prudential oversight system for banking operations and to encourage savings mobilization on the part of local quasi-banking financial institutions including through micro-enterprise finance if appropriate. (December 2003 – September 2004)

Present recommendations on priorities for the banking framework and a timetable for drafting and implementation (November 2003)

e-3) Bank Licensing and Banking Operations

Tasks

Provide support to prepare bank licensing legislation.

The advisors will assist the CB in developing and implementing new procedures and criteria to analyze applications for new bank licenses and banking activities. These procedures and criteria should incorporate international standards of licensing, including thorough background assessments of potential owners. Also, the criteria should provide a basis to determine the integrity of ownership, the sources of financial capitalization, the financial capacity for on-going banking operations, the adequacy of management and reasonableness of the business plan. The contractor will help design the Licensing and Corporate Activities manual and oversee pilot testing of the procedures and staff training.

Advisors shall provide support for review and implementation of a sound accounting system in the Headquarters Office and integrated into the newly formed branch offices; and for the institutionalization of sound accounting procedures and practices at Headquarters Office and all branch offices.

The advisors will assist the staff in providing phased improvement of the range of tools, consistent with current banking law and supervisory authority, which can be used to enforce corrective actions for banks and to resolve weaknesses identified during onsite inspection and offsite analyses.

The contractor will assist the supervisory staff in designing and presenting Outreach Seminars for the banking community to introduce the new Licensing and Corporate Activities process/requirements.

Benchmarks

Procedures and criteria to analyze applications for new bank licenses and banking activities completed, and early training completed of relevant bank staff in their use. (January 2004).

Institutionalization completed of sound accounting system in Headquarters office and integrated into newly formed branch offices. (September 2004)

Phase I improvement in tools to enforce corrective actions in banks and resolve weaknesses identified during onsite inspections and offsite analyses. (March 2004)

e-4) Strengthening Off-site Supervision

Tasks

The advisors will assist the CB in developing and implementing an effective and timely regulatory reporting process. An effective regulatory reporting process will provide a basis for the early detection of problems, and help identify systemic trends through the bank performance reporting process. (ongoing, first 12 months)

An assessment of the effectiveness and capabilities of the back office operations will be conducted to ensure their appropriateness and ability to support the mission of CB. The advisor will recommend enhancements and prepare technical specifications for any computer hardware and software required. (ongoing, first 12 months)

The advisors will assist the CB in developing instruction manuals and/or training seminars to ensure that bankers as well as CB staff understand the financial reporting requirements, and their purpose. The need for banker training in the preparation of regulatory reports/accounting rules will be determined. (Could include development of Examination Procedures Manual, Problem Bank/Liquidation Procedures Manual, or Licensing and Corporate Activities Manual). (on going first 18 months)

The advisors will assist the CB in beginning the elaboration of an internal bank rating system to provide a analytical basis for making supervisory decisions. The rating system should appropriately identify risk(s) in a financial institution and correspond to certain types of enforcement actions similar to the CAMELS rating system used by many OECD countries. The rating system will also incorporate ratings 'S' for risk management. The advisors will develop written policy guidelines and procedures based on the above recommendations. Training will also be provided to inspectors in the use of the bank rating system. (Ongoing, first 18 months)

The advisors will work with the CB in beginning the development of an early warning process setting forth criteria that would serve as the basis for identifying troubled banks. This is a prerequisite for the CB taking measures/requiring corrective actions to resolve problems before they become irremediable. The specific ratios will be developed as well as procedures for performing the periodic analysis using the ratios and other criteria. Inspectors will be trained in these processes. (ongoing, first 24 months)

The CB Bank Supervision Department evolves its processes so that risk-based supervision becomes the basis for both its inspection and enforcement functions. ("Risk-based supervision", used in this context refers to the process whereby bank supervisors based their analysis not just on the current financial condition of a bank, but on an approach which looks at the banks systems for identifying and managing risk; and the commercial banks' management develop institutionalized systems and internal controls for identifying and managing risks). (ongoing, first 24 months)

Benchmarks

An off site analytical system will be designed. The contractor will provide training to CB on offsite analytical techniques throughout the system's development (December 2003-March 2006)

The early warning indicator monitoring system based on an automated data base system in CB will have been developed and tested. (October 2004)

Comprehensive computerized off-site financial analysis system is effectively applied on a quarterly basis to the financial performance data provided by licensed financial institutions. (April 2004– March 2006)

A standardized off-site bank financial process and format is established and fully made operational (June-July 2004)

A functioning computerized off-site financial analysis system is established and made operational. (June 2004)

In-house training for trainers will have begun on selected on site and off site supervisory topics. (October 2004)

The Accreditation process (test, case exercises) will have been finalized and the initial supervisors will have begun the formal Accreditation process. (October 2005)

The Problem Bank Procedure Manual will have been developed and presented to CB for adoption. Training will have been provided to supervisors and other appropriate individuals on use of the manual (July 2004)

Help prepare other priority training manuals as appropriate (October 2004)

e-5) On-site Examination Policies/Procedures/Training

Tasks

The advisors will develop and implement an on-site inspection process based on prudential bank regulations which would result in a CAMELS (capital, assets, management, earnings and liquidity, sensitivity to market risk) type rating process. This will consist of developing inspection procedures for the on-site inspection of all major areas of bank activity, classroom training of these procedures, and training in and testing of the procedures during on-site inspections. An integral component of the program will be advisors participating in on-site inspections alongside CB examiners. (ongoing, first 24 months)

Develop on-site examination procedures with a focus on understanding risks inherent in banking and banking activities. The advisors will assist the CB in drafting the policies and procedures relating to the overall inspection process. This will include procedures for planning the inspection, conducting the inspection on-site, formatting work papers and communicating inspection results.

The advisors will assist the CB in developing a basic on-site inspection manual based on international standard of banking supervision. Many other developing countries have had similar inspection manuals developed and tested, these can become the foundations for the inspection manual of Iraq. However, it is imperative to customize the manuals to the law of Iraq and to its prudential norms. This will include helping in the development of an outline for the manual, drafting chapters, testing the policy and procedures in the chapters during on-site examinations, providing classroom training geared toward the chapters and helping to put the chapters in final form. Imperative to this manual development and its usability, is the advisors ability to assure ownership by Iraq of the manual and the manual revision process.

The advisors will work with CB staff in finalizing the format for the "Report of Inspection" which will be used to communicate inspection findings to both bank management and the management of CB. This report will be tested during on-site inspections to determine its usefulness and to train inspectors in preparing the report.

The advisors will work with CB. in developing enforcement procedures for violations of prudential standards and CB relevant laws disclosed by the onsite inspection.

Benchmarks

Assist with development of on-site processes and procedures. (June 2004)

Establish working group including expert advisors to draft the on-site supervision manual. (March 2004).

Determine potential CAMELS ratings of commercial bank through on site inspections and corrective action taken for areas of non-compliance with regulations and supervisory norms. (December 2005)

Complete a number of training sessions agreed upon with Central Bank management and USAID on site supervision techniques reflected in the inspection manual (March 2005)

Support initiation of a minimum of 25 percent of onsite examinations of commercial banking institutions to be carried out by the staff of the CB bank supervision unit, and provide the schedule for these exams. (September 2005-February 2006)

The CB will have developed standardized documents relating to on-site examinations e.g. request letters to bank management, reports of examination and formatted working (June 2005)

e-6) Agency Management, Organization and Outreach

Tasks

The CB Bank Supervision Department implements an institutionalized program for training, career advancement and certification of bank supervision officials. There is an established, required training program for bank examiners, with career advancement contingent on certification at different levels.

A strategy is developed and made operational for the provision and appropriate regulation of financial services in Iraq which are being provided outside the context of the operation of licensed commercial banks in the banking system

The contractor will provide training to CB senior management to enable them to effectively evaluate staffing needs, develop job descriptions, and assess and reward staff as appropriate.

Full adoption and effective implementation of sound (IAS-consistent) accounting standards (provided by the CB) in all licensed financial institutions

The CB will have developed a training program and training materials for both on-site inspection and off-site analysis and a core group of examiners trained in all aspects of these disciplines.

Benchmarks

Design and develop improved computerized accounting system in the CB Headquarters Office and newly licensed branch offices. (January 2004-April 2004) Implement improved computerized accounting system in CB and in branches (July 2004) .

The CB will have established an organizational structure that supports effective and efficient bank supervision -- position descriptions which reflect duties and responsibilities and reporting requirements (March 2004)

Full reconciliation of the end-year accounting records at the CB head office and its branches for FY 2003 (November 2004); and for FY 2004 (May 2005)

Present strategy for the provision and appropriate regulation of financial services in Iraq which are being provided outside the context of the operation of licensed commercial banks in the banking system with action plan and time table. (June 2004)

Prudential regulations and implementing instructions designed to promote the establishment and operation of financially responsible micro-finance institutions and to facilitate effective savings mobilization activities on the part of micro-finance institutions are refined and fully made operational if appropriate for the banking system of Iraq. (June 2004)

A training program to facilitate the adoption and full and effective implementation of IAS-consistent accounting standards in licensed financial institutions is established. (November 2003) A minimum of 8 training modules is provided. (April 2004-April 2005)

A training program to facilitate the adoption and full and effective implementation of efficient core operating practices in licensed financial institutions is established. (January 2004) A minimum of 8 training modules in Arabic and English are to be provided. (August 2004 – March 2005)

Continued comprehensive training programs (including training for trainers of Iraq) for the development of strong and sustainability transferable expertise among the staff of the CB bank supervision unit in the areas of licensing, onsite examination, offsite financial analysis, prompt corrective action procedures, international accounting standards, audit and internal controls, and liquidity and funds management are conducted regularly to ensure that the staff are fully competent in all areas of bank supervision. A minimum of 15 training modules will be provided (available in Arabic and English). (October 2004 – March 2006)

Regular IAS training programs will be offered at the CB and its branches to facilitate the full adoption and effective implementation of IAS-consistent accounting standards and related core bank operating procedures (provided by the CB) in all licensed financial institutions (November 2003-November 2004). A minimum of 10 training modules (available in Arabic and English) will be provided. (November 2003 – November 2004)

3. Trade and Private Sector Development

Assistance to be delivered on trade will focus on trade policy in goods, services, and agricultural matters and initially the impact of proposals that have been made for a dual customs exchange rates and tariff structure, to provide separately for the impacts of oil and natural gas. The effort is designed to assure adequate preparations for WTO accession, provided it has not already been accomplished for Iraq. The other focus will be to explore trade and export possibilities and opportunities for investment to support that objective.

Tasks

These activities will need to be coordinated by Contractor under the supervision of USAID with the activities of other US government agencies.

Exchange Rate and Tariff Rates Optimization: The implementer shall provide an analysis and continuing support to policy makers in selected Middle East countries on the importance of coordinating exchange rate changes and tariff policy and work with the tax policy assistance and the monetary unit to develop appropriate tariff structure.

Trade and Foreign Direct Investment Laws. Iraq should adopt a regime of investment that will promote the repatriation of capital and the inflow of new capital. This regime should be blind as to whether the investor is from that country or elsewhere. Over the next 12-18 months, the implementer shall assist in the development and approval of core commercial laws, including those governing, trade laws¹, sanitary and phytosanitary measures, and customs laws.

Export Opportunities: The implementer shall conduct a study on Iraq 's economic situation and opportunities to initiate business activity in selected areas for which that country has the appropriate climate, location, skills and capital.

Assistance should review standards and certifications to set up a system whereby standards for trade are consistent with international standards to ensure access to export markets

Benchmarks

Paper prepared on policy options for improving tariff structure and dealing with non-tariff barriers, if any, to ensure they are favorable to economic growth. (December 2003)

Make recommendations on tariff restructuring and dealing with non-tariff barriers and time table for implementation (December 2003)

Analysis prepared of impact of energy trade on potential economic growth in selected Middle Eastern country and resources and policies required to initiate activity. (December 2003)

Export assessment prepared analyzing prospects for selected export activities in fruits and vegetable, flower, seeds, textiles or other appropriate products or services. (December 2003)

Draft customs code and implementing instructions developed (December 2003)

In collaboration with separate agriculture project and other US government agencies as appropriate, draft sanitary and Phyto-sanitary measures are developed (December 2003- March 2003)

¹ Such laws should be consistent with WTO standards.

Analysis of impact of trade with regional markets versus trade with Europe or Asia and recommendations for policy framework to pursue it. (March 2004).

Assess “behind the border” concerns regarding the trade regime and make recommendations for dealing with such matters. 5 such concerns addressed per year. (Ongoing, all three years)